

Northeast Michigan Consortium

Onaway, Michigan

Financial Statements and Additional Information
Year Ended June 30, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Northeast Michigan Consortium	County Presque Isle
Audit Date 6/30/05	Opinion Date 9/29/05	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

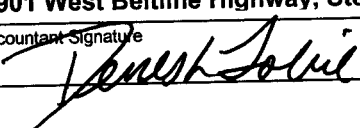
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) Wipfli LLP			
Street Address 2901 West Beltline Highway, Ste. 201	City Madison	State WI	ZIP 53713
Accountant Signature 		Date 11-10-05	

Northeast Michigan Consortium

Financial Statements and Additional Information
Year Ended June 30, 2005

Table of Contents

Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Statement of Net Assets and Governmental Fund Balance Sheet.....	8
Statement of Activities and Governmental Fund Revenue, Expenditures, and Changes in Fund Balance.....	9
Notes to Financial Statements	10
Additional Information	
Schedule of Expenditures of Federal Awards and Other Financial Assistance	16
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters	21
Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance.....	23
Schedule of Findings and Questioned Costs	25

Independent Auditor's Report

Board of Directors
Northeast Michigan Consortium
Onaway, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of Northeast Michigan Consortium as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of Northeast Michigan Consortium's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Northeast Michigan Consortium as of June 30, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2005, on our consideration of Northeast Michigan Consortium's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements, but is additional information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding methods of measurement and presentation of the required additional information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Northeast Michigan Consortium basic financial statements. The accompanying schedule of expenditures of federal awards and other financial assistance, Schedule A-1 to A-5, which includes the requirements of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.



Wipfli LLP

September 29, 2005
Madison, Wisconsin

Northeast Michigan Consortium

Management's Discussion and Analysis

Financial Highlights

- Northeast Michigan Consortium's (the "Consortium") overall financial position, as reflected in total net assets, decreased by \$7,414 and \$8,667 in 2005 and 2004, respectively.
- In governmental funds, the total fund balance decreased by \$6,064 in 2005, and increased by \$1,962 in 2004.

A synopsis of key financial activities for the 2004-2005 fiscal year is as follows:

- In conjunction with Alpena Community College, the Consortium remains involved with ongoing training using a discretionary three-year USDOL H-1B training grant. The purpose of the grant was/is to provide high-tech training to employers of several large corporations, both within Michigan and in other states, as well as a regional medical center, a national concrete association and the Alpena Area Chamber of Commerce. For the audit period, \$469,265 has been expended, and 514 individuals have participated in training since the inception. This continues to be an interesting model, and offerings are being extended to other area corporations.
- The Regional Skills Alliance, with \$85,000 in state WIA and Mott Foundation funds, was implemented in conjunction with the North Central Council of the Michigan Health and Hospital Association. Key partners for this 11-county effort are six hospitals and three community colleges. During the year, hospital staff were provided key training, and four "health camps" were held for youth in 6th through 10th grade, at sites in the region, as well as a week of career exploration at Ferris State University. The Consortium dedicated its WIA-incumbent worker funding to the project in the amount of \$39,152 to provide short-term training to 162 current hospital staff members. This has been a good reflection of the Consortium's ability to work successfully with partners in different occupational fields, while actively participating in a closely-monitored state initiative.
- During the year, the Consortium awarded \$3,700,738 in funding to two adult contractors and four youth contractors for programming to begin July 1, 2005. The contracts are for one year each, with two optional years, and completes an important procurement process which included the Administrative Board, Workforce Development Board, and staff.
- In December of 2004, the Consortium received an incentive award of \$46,945 for exceeding all 17 performance measures for adult and youth, the second consecutive year that the Consortium exceeded all standards.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Northeast Michigan Consortium's basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. In addition, other information supplementary to the basic financial statements is provided.

Northeast Michigan Consortium

Management's Discussion and Analysis

Overview of the Financial Statements (Continued)

Government-Wide Financial Statements

- The government-wide financial statements are the statement of net assets and the statement of activities. These statements present an aggregate view of the Northeast Michigan Consortium's finances in a manner similar to private and nonprofit sectors.
- The statement of net assets presents information on all of Northeast Michigan Consortium's assets and liabilities, with the difference between the two being reported as net assets.
- The statement of activities presents information showing how Northeast Michigan Consortium's net assets changed during the year.
- The government-wide financial statements are shown on pages 8 and 9 of this report.

Fund Financial Statements

- The Consortium also produces fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities. The Consortium, like other federal/state and local governments, uses fund accounting to demonstrate compliance with finance-related legal requirements. Fund statements generally report operations in more detail than the Consortium's government-wide statements.
- There are two fund financial statements: the statement of net assets and governmental fund balance sheet and the statement of activities and governmental fund revenue, expenditures, and changes in fund balance.
- The Consortium has only one fund — the governmental general fund. The general fund accounts for all federal, state, and local grant-funded programs.

The major features of the Consortium's financial statements, including the portion of the activities reported and the type of information contained, is shown in the following table.

	Government-Wide Statements	Fund Financial Statements Governmental
Scope	Entire Government.	The programmatic and operating activities of the Consortium, such as employment and training.
Required Financial Statements	Statement of net assets and statement of activities.	Statement of net assets and governmental fund balance sheet and statement of activities and governmental fund revenue, expenditures, and changes in fund balance.
Basis of Accounting and Measurement Focus	Accrual accounting and economic resources focus.	Accrual accounting. Current financial resources focus.
Type of Asset and Liability Information	All assets and liabilities, both financial and capital, short-term and long-term.	Generally includes assets expected to be used up and liabilities that come due during the year or soon thereafter. No capital assets or long-term liabilities included.
Type of Inflow and Outflow Information	All revenue and expenses during the year, regardless of when cash is received or paid.	Revenue for which cash is received during or soon after the end of the year. Expenditures when goods or services have been received and the related liability is due and payable.

Northeast Michigan Consortium

Management's Discussion and Analysis

Overview of the Financial Statements (Continued)

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the Consortium's government-wide and fund financial statements. The notes to the financial statements can be found on pages 10 through 15 of this report.

Government-Wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Consortium, assets exceeded liabilities by \$121,379 and \$128,793 at June 30, 2005 and 2004, respectively. Table 1 below provides a summary of the Consortium's net assets for the years ended June 30, 2005 and 2004.

Table 1
Condensed Statement of Net Assets
On Governmental Activities

	2005	2004
Current and other assets	\$ 853,282	\$ 867,506
Capital assets	0	1,350
Total assets	853,282	868,856
Current liabilities	731,903	740,063
Long-term liabilities	0	0
Total liabilities	731,903	740,063
Net assets:		
Invested in capital assets	0	1,350
Unrestricted	121,379	127,443
Total net assets	\$ 121,379	\$ 128,793

In governmental activities, total assets decreased by \$15,574 in 2005, and increased by \$246,147 in 2004. The decrease in 2005 was caused by a decrease in grant receivables of \$136,542. In 2004, the increase was caused by an increase in grants receivable of \$164,189. Total liabilities decreased \$8,160 in 2005 and increased by \$244,184 in 2004. The decrease in 2005 was caused by a decrease in accounts payable of \$174,244, while unearned revenue increased by \$163,410. In 2004, the increase was caused by an increase in accounts payable of \$186,081.

Northeast Michigan Consortium

Management's Discussion and Analysis

Change in Net Assets

Table 2 summarized the change in net assets for the fiscal year 2005 and fiscal year 2004.

Table 2
Change in Net Assets

	2005	Percentage of Funding	2004	Percentage of Funding
Revenue:				
Operating grants	\$ 5,598,265	94.10%	\$ 5,929,498	98.40%
In-kind revenue	349,340	5.87%	94,740	1.57%
Miscellaneous	1,936	0.03%	1,962	0.03%
Total revenue	5,949,541	100.00%	6,026,200	100.00%
Expenditures:				
Administration	668,429	11.22%	574,769	9.52%
Core services	1,719,910	28.87%	1,003,528	16.63%
Intensive services	1,550,367	26.03%	1,988,168	32.94%
Direct training	476,349	8.00%	1,005,959	16.67%
Out-of-School	360,322	6.05%	398,473	6.60%
In-School	615,890	10.34%	686,941	11.38%
Assistance	206,998	3.47%	271,660	4.50%
Depreciation-unallocated	1,350	0.02%	10,629	0.18%
In kind	349,340	5.86%	94,740	1.57%
Other	8,000	0.13%	0	0.00%
Total expenditures	5,956,955	100.00%	6,034,867	100.00%
Changes in net assets	(7,414)		(8,667)	
Net assets - beginning of year	128,793		137,460	
Net assets - end of year	\$ 121,379		\$ 128,793	

As shown, program revenue in the form of grants provide about 99% of the funds for governmental activities, which are expended primarily on core services, intensive services, and direct training. Operating grant revenue for 2005 was \$331,233 or 5.5% less than 2004.

Governmental Funds

The Consortium completed the year with a total governmental fund balance of \$121,379, \$6,064 less than last year's ending fund balance of \$127,443.

Capital Assets

At the end of the 2005 fiscal year, the Consortium had invested a cumulative of \$243,907 in capital assets, including vehicles and equipment (see Table 3). Additional information about capital assets can be found in Note 7, page 15. The Consortium recognized depreciation expense of \$1,350 for governmental activities. Total accumulated depreciation on these assets was \$243,907.

Northeast Michigan Consortium

Management's Discussion and Analysis

Capital Assets (Continued)

Table 3
Capital Assets

	2005	2004	% Change
Equipment	\$ 204,644	\$ 204,644	0.00%
Vehicles	39,263	39,263	0.00%
Accumulated depreciation	(243,907)	(242,557)	0.56%
Totals	\$ 0	\$ 1,350	

Factors Bearing on Northeast Michigan Consortium's Future

There are a variety of factors concerning the Consortium's future in the next 1-3 year period.

- Funding levels, outside of discretionary grants recently awarded, has remained level in some areas, while declining or even being eliminated in others. Part of this is due to federal budgetary decreases, as well as state general fund cutbacks and eliminations. Some of the change is also due to how the Consortium fares in terms of federal and state formula distribution of funds, which takes into consideration economic factors, population, labor force size, and other data. Also, some state-level federal discretionary funds, which have in the past been decentralized to the 25 Michigan Works! agencies, are now being placed into state-level programs or competitive request for proposals from the state level.
- The Workforce Investment Act (WIA) will be rewritten and reauthorized, in all probability, early in 2006. This may result in significant changes in target populations, funding formulas, and other pertinent factors, which can affect operations.
- In a similar manner, the Temporary Assistance for Needy Families (TANF) legislation will likely be rewritten in 2006, and similar to WIA, noted above, the Consortium will need to accommodate and adapt to changes. A larger, but related concern is that after nine years, the current administration in the state capitol is tentatively drafting significant amendments to the Work First program, Michigan's Welfare-to-Work program, which would significantly alter how the program will be delivered in the state, and may affect the Consortium's role.
- Given all of the above factors, the Consortium and its various contractors will need to carefully monitor federal and state legislation, as well as state-level activities, directions, and resultant policies. The Consortium will need to be flexible and creative in terms of reacting to changes and will need to aggressively pursue and compete for additional discretionary funding sources.

Contacting the Northeast Michigan Consortium's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Consortium's finances and to demonstrate the Consortium's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mr. Kurt Reis, Director, 20709 State Street, P.O. Box 711, Onaway, MI 49765.

Northeast Michigan Consortium

Statement of Net Assets and Governmental Fund Balance Sheet

June 30, 2005

	General Fund	Adjustments (Note 1)	Statement of Net Assets
Assets:			
Cash	\$ 355,016	\$ 0	\$ 355,016
Grants receivable	466,549	0	466,549
Other receivables	6,890	0	6,890
Prepaid expenses	24,827	0	24,827
Total assets	\$ 853,282	\$ 0	\$ 853,282
Liabilities:			
Accounts payable	\$ 386,506	\$ 0	\$ 386,506
Accrued payroll and related expenses	23,724	0	23,724
Accounts payable to subcontractors	56,977	0	56,977
Accrued vacation	56,208	0	56,208
Unearned revenue	208,488	0	208,488
Total liabilities	731,903	0	731,903
Fund balances/net assets:			
Unreserved fund balance	121,379	(121,379)	0
Total fund balance	121,379	(121,379)	0
Total liabilities and fund balance	\$ 853,282		
Net assets:			
Unrestricted		121,379	121,379
Total net assets		\$ 121,379	\$ 121,379

See accompanying notes to financial statements.

Northeast Michigan Consortium

Statement of Activities and Governmental Fund Revenue, Expenditures, and Changes in Fund Balance Year Ended June 30, 2005

	General Fund	Adjustments (Note 1)	Statement of Activities
Revenue:			
Federal grant revenue	\$ 5,325,440	\$ 0	\$ 5,325,440
State grant revenue	272,825	0	272,825
In-kind revenue	349,340	0	349,340
Other revenue	1,936	0	1,936
Total revenue	5,949,541	0	5,949,541
Expenditures:			
Administration	668,429	0	668,429
Job training:			
Core services	1,719,910	0	1,719,910
Intensive services	1,550,367	0	1,550,367
Direct training	476,349	0	476,349
Out-of-School	360,322	0	360,322
In-School	615,890	0	615,890
Assistance	206,998	0	206,998
Other	8,000	0	8,000
In kind	349,340	0	349,340
Depreciation	0	1,350	1,350
Total expenditures	5,955,605	1,350	5,956,955
Excess (deficiency) of revenue over expenditures	(6,064)	6,064	0
Change in net assets	0	(7,414)	(7,414)
Fund balance/net assets - beginning of year	127,443	1,350	128,793
Fund balance/net assets - end of year	\$ 121,379	\$ 0	\$ 121,379

See accompanying notes to financial statements.

Northeast Michigan Consortium

Notes to Financial Statements

Note 1

Summary of Significant Accounting Policies

Nature of Operations

Northeast Michigan Consortium (the "Consortium") is a consortium of governments, which was organized in 1983. The Consortium was formed to develop and provide resources for the purpose of assisting low-income individuals through a variety of programs. The Consortium includes the counties of Alcona, Alpena, Cheboygan, Crawford, Oscoda, Otsego, Presque Isle, and Montmorency, Michigan. The Consortium is primarily supported through federal and state government grants, approximately 84% of which are provided by the Michigan Department of Labor and Economic Growth.

The financial statements of the Consortium have been prepared in conformity with generally accepted accounting principles as applied to government units. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, when applicable, that do not conflict with or contradict GASB pronouncements. The significant accounting principles and policies utilized by the Consortium are described below.

Basis of Presentation

Government-Wide Statements

The statement of net assets and the statement of activities present financial information about the Consortium's governmental activities. These statements include the financial activities of the overall government in its entirety. Governmental activities generally are financed through intergovernmental revenue and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and revenue for each function of the Consortium's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Revenue primarily consists of grants that are restricted to meeting the operational or capital requirements of a particular program. Revenue that is not classified as grant revenue, including interest income, is presented as other revenue.

Fund Financial Statements

The fund statements provide information about the Consortium's fund. A separate statement for each fund category is presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The Consortium reports only one major governmental fund.

Northeast Michigan Consortium

Notes to Financial Statements

Note 1 **Summary of Significant Accounting Policies (Continued)**

Fund Financial Statements (Continued)

General Fund

This is the Consortium's primary operating fund. It accounts for all financial activity, including activities associated with providing job training and other social service programs. Sources include financial aid received from the state and federal government.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the Consortium gives or receives value without directly receiving or giving equal value in exchange, include grants, entitlements, and donations. On an accrual basis, revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Interest earnings on temporary investments are recognized in the fiscal period earned.

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenue is recognized when measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Consortium considers all revenue reported in the governmental funds to be available if the revenue is collected within 60 days after the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for certain compensated absences which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Unearned revenue is reported on the balance sheet when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenue also arises when resources are received by the Consortium before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability on the balance sheet is removed and revenue is recognized.

Capital Assets

Capital assets are reported at actual cost. Donated assets are reported at estimated fair market value at the time received. Capital assets are recorded in the government-wide financial statement, but are not reported in the fund financial statement.

Northeast Michigan Consortium

Notes to Financial Statements

Note 1 **Summary of Significant Accounting Policies (Continued)**

Capital Assets (Continued)

Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Equipment	\$ 5,000	Straight line	3
Vehicles	\$ 5,000	Straight line	5

Federal and State Grant Revenue

Grants are recorded as invoiced to the funding source. Revenue is recognized in the accounting period when the related expenses are incurred. Amounts received or receivable in excess of expenses are reflected as unearned revenue.

In Kind/Match

All in-kind contributions required by grant awards are recorded in the statement of activities and governmental fund revenue, expenditures, and changes in fund balance at market value, and are recognized as revenue and expense in the period they are received. The in kind/match relates to the H-1B Technical Skills Training grant and consists of wages paid to apprentices and wages of trainees which are not charged to the grant, but nonetheless paid by employers.

Cost Allocation

Joint costs are allocated to benefiting programs using various allocation methods, depending on the type of joint cost being allocated. Whenever possible, costs are allocated directly to each program. Joint costs are those costs incurred for the common benefit of all Consortium programs that cannot be readily identified with a final cost objective.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes

The Consortium is a consortium of governments organized under Michigan Public Act 7 of 1967 and is exempt from federal and Michigan income taxes.

Northeast Michigan Consortium

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Budgetary Accounting

The Consortium receives funds under various grants and contracts which end on various budget cycles. As a result, no formal organization-wide budget is available. Therefore, no budgetary comparison has been included in these financial statements.

Explanation of Differences Between Statement of Activities and Governmental Fund Revenue, Expenditures, and Changes in Fund Balance and the Statement of Net Assets and Governmental Fund Balance Sheet

The differences between the statement of activities and governmental fund revenue, expenditures, and changes in fund balance and the statement of net assets and governmental fund balance sheet fall into one of two broad categories as indicated below:

1. Long-term revenue differences may arise because governmental funds report revenue only when they are considered "available," whereas the statement of activities reports revenue when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis whereas the accrual basis of accounting is used in the statement of activities.
2. Capital-related differences include the difference between recording an expenditure for the purchase of capital items (including capital leases) in the governmental fund statements and capitalization and recording depreciation expense on those items as recorded in the statement of activities.

<u>Depreciation expense</u>	\$ 1,350
Cost of capital assets	\$ 243,907
<u>Accumulated depreciation</u>	243,907
<u>Total</u>	\$ 0

Note 2 Grants Receivable

Grants receivable at June 30, 2005, consisted of the following:

Michigan Department of Labor and Economic Growth	\$ 310,065
Michigan Economic Development Corporation	6,665
U.S. Department of Labor Employment and Training	126,428
<u>U.S. Department of Defense</u>	23,391
<u>Total</u>	\$ 466,549

Northeast Michigan Consortium

Notes to Financial Statements

Note 3 Cash

The Consortium maintains cash balances at local banks in interest-bearing checking accounts. As of June 30, 2005, the bank balance was \$468,181 and the carrying amount was \$355,016. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Balances in excess of \$100,000 are not collaterally secured by the banks. As of June 30, 2005, the Consortium has deposits of \$246,802 that were uninsured and uncollateralized.

Note 4 Risk Management

Significant losses are covered by commercial insurance for all major programs. For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Note 5 Operating Leases

The Consortium leases various facilities for operation of their programs. Rent expense for the year ended June 30, 2005, was \$274,565. Future minimum lease payments on noncancelable leases having terms beyond June 30, 2005, are as follows:

2006	
2007	\$ 274,166
2008	172,062
2009	138,892
	<u>105,711</u>
Total	<u>\$ 690,831</u>

Note 6 Post-Employment Plans

The Consortium has a deferred compensation plan authorized under Section 457 of the Internal Revenue Code. The plan is open to substantially all employees. The contribution to the retirement plan by the Consortium is determined by the Board annually and was 6.31% of compensation for the year ended June 30, 2005. The Consortium's contributions for the year ended June 30, 2005, were \$27,984.

During the year, the Consortium adopted a post-employment health plan. The plan is open to substantially all employees. The contribution to the post-employment health plan by the Consortium is determined by the Board annually and was 4% of compensation for the year ended June 30, 2005. In addition, the Board agreed to a one-time catch-up payment paid out based on the number of years of service. The Consortium's contributions for the year ended June 30, 2005, were \$160,439. During the year, no retirees received benefits under these provisions.

Northeast Michigan Consortium

Notes to Financial Statements

Note 7

Equipment

Capital asset balances and activity for the year ended June 30, 2005, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets being depreciated:				
Equipment	\$ 204,644	\$ 0	\$ 0	\$ 204,644
Vehicles	39,263	0	0	39,263
Total capital assets being depreciated	243,907	0	0	243,907
Less accumulated depreciation for:				
Equipment	(39,263)	(0)	0	(39,263)
Vehicles	(203,294)	(1,350)	0	(204,644)
Total accumulated depreciation	(242,557)	(0)	0	(243,907)
Governmental activities capital assets, net of accumulated depreciation	\$ 1,350	(\$ 1,350)	\$ 0	\$ 0

Additional Information

Northeast Michigan Consortium

Schedule A-1

Schedule of Expenditures of Federal Awards and Other Financial Assistance
Year Ended June 30, 2005

CFDA		ASSISTANCE PROGRAMS AS IDENTIFIED IN THE CATALOG OF FEDERAL DOMESTIC ASSISTANCE				Program or Award Amount		Expenditures	
Number	Grant Number	Program Name	Grantor Agency	Program Period	Award Amount				
10.561	N/A	Food Assistance	Michigan Dept. of Labor and Economic Growth	10/01/03-09/30/04	\$ 76,703	\$		14,128	
10.561	N/A	Food Assistance	Michigan Dept. of Labor and Economic Growth	10/01/04-09/30/05	73,852			48,374	
		Subtotal 10.561 (includes subcontracted expenditures of \$40,561)						62,502	
Department of Defense									
12.002	SP480099-2-0035	Procurement Technical Assistance	U.S. Dept. of Defense	01/01/04-12/31/04	94,138			48,323	
12.002	SP480000-2-0035	Procurement Technical Assistance	U.S. Dept. of Defense	01/01/05-12/31/05	94,138			45,275	
		Subtotal 12.002**						93,598	
Department of Labor									
17.207	N/A	Employment Service	Michigan Dept. of Labor and Economic Growth	07/01/04-06/30/05	264,188			256,579	
17.207	N/A	Re-employment Service	Michigan Dept. of Labor and Economic Growth	07/01/04-06/30/05	29,652			29,652	
		Subtotal 17.207 (includes subcontracted expenditures of \$188,192)						286,231	
17.245	N/A	TRADE	Michigan Dept. of Labor and Economic Growth	10/01/03-09/30/04	171,571			67,082	
17.245	N/A	TRADE	Michigan Dept. of Labor and Economic Growth	10/01/04-09/30/05	75,263			60,541	
		Subtotal 17.245						127,623	
17.258	N/A	WIA Adult	Michigan Dept. of Labor and Economic Growth	07/01/04-06/30/05	1,068,666			974,236	
17.258	N/A	WIA Local Administration	Michigan Dept. of Labor and Economic Growth	07/01/04-06/30/05	163,569			132,385	

**Direct Federal Funds

See Independent Auditor's Report.

Northeast Michigan Consortium

Schedule A-2

Schedule of Expenditures of Federal Awards and Other Financial Assistance
Year Ended June 30, 2005

CFDA Number	Grant Number	Program Name	Grantor Agency	Program Period	Program or Award Amount	Expenditures
ASSISTANCE PROGRAMS AS IDENTIFIED IN THE CATALOG OF FEDERAL DOMESTIC ASSISTANCE (Continued)						
17.258	N/A	WIA Statewide Activities Incumbent Worker	Michigan Dept. of Labor and Economic Growth	07/01/04-06/30/05	1,809	1,809
17.258	N/A	WIA Statewide Activities Incumbent Worker	Michigan Dept. of Labor and Economic Growth	10/01/04-09/30/05	10,453	4,783
17.258	N/A	WIA Statewide Activities Displaced Homemaker	Michigan Dept. of Labor and Economic Growth	07/01/04-06/30/05	11,452	11,452
17.258	N/A	WIA Statewide Activities Performance Incentives	Michigan Dept. of Labor and Economic Growth	07/01/04-06/30/05	36,722	36,722
17.258	N/A	WIA Statewide Activities Regional Skills Alliance	Michigan Dept. of Labor and Economic Growth	10/01/04-09/30/05	13,526	5,488
17.258	N/A	WIA Statewide Activities Capacity Building	Michigan Dept. of Labor and Economic Growth	07/01/04-06/30/05	6,684	6,684
Subtotal 17.258 (includes subcontracted expenditures of \$600,873)						
17.259	N/A	WIA Youth	Michigan Dept. of Labor and Economic Growth	07/01/04-06/30/05	950,384	1,173,559
17.259	N/A	WIA Local Administration	Michigan Dept. of Labor and Economic Growth	07/01/04-06/30/05	174,271	932,309
17.259	N/A	WIA Statewide Activities Incumbent Worker	Michigan Dept. of Labor and Economic Growth	07/01/04-06/30/05	2,392	140,958
17.259	N/A	WIA Statewide Activities Incumbent Worker	Michigan Dept. of Labor and Economic Growth	10/01/04-09/30/05	11,429	2,392
17.259	N/A	WIA Statewide Activities Displaced Homemaker	Michigan Dept. of Labor and Economic Growth	07/01/04-06/30/05	12,522	5,230
17.259	N/A	WIA Statewide Activities Performance Incentives	Michigan Dept. of Labor and Economic Growth	07/01/04-06/30/05	45,562	12,522
17.259	N/A					45,562

**Direct Federal Funds

See Independent Auditor's Report.

Northeast Michigan Consortium

Schedule A-3

Schedule of Expenditures of Federal Awards and Other Financial Assistance Year Ended June 30, 2005

CFDA					Program or Award Amount	Expenditures
Number	Grant Number	Program Name	Grantor Agency	Program Period		
ASSISTANCE PROGRAMS AS IDENTIFIED IN THE CATALOG OF FEDERAL DOMESTIC ASSISTANCE (Continued)						
17.259	N/A	WIA Statewide Activities Regional Skills Alliance	Michigan Dept. of Labor and Economic Growth	10/01/04-09/30/05	14,789	6,001
17.259	N/A	WIA Statewide Activities Capacity Building	Michigan Dept. of Labor and Economic Growth	07/01/04-06/30/05	7,308	7,308
Subtotal 17.259 (includes subcontracted expenditures of \$808,573)						1,152,282
17.260	N/A	WIA Dislocated Worker	Michigan Dept. of Labor and Economic Growth	07/01/04-06/30/05	809,012	755,858
17.260	N/A	WIA DW National Reserve Administration	Michigan Dept. of Labor and Economic Growth	07/01/04-06/30/05	5,964	5,964
17.260	N/A	WIA DW National Reserve	Michigan Dept. of Labor and Economic Growth	07/01/04-06/30/05	53,672	53,672
17.260	N/A	WIA Local Administration	Michigan Dept. of Labor and Economic Growth	07/01/04-06/30/05	144,294	115,768
17.260	N/A	WIA Statewide Activities Incumbent Worker	Michigan Dept. of Labor and Economic Growth	07/01/04-06/30/05	2,028	2,028
17.260	N/A	WIA Statewide Activities Incumbent Worker	Michigan Dept. of Labor and Economic Growth	10/01/04-09/30/05	15,653	7,162
17.260	N/A	WIA Statewide Activities Displaced Homemaker	Michigan Dept. of Labor and Economic Growth	07/01/04-06/30/05	17,148	17,148
17.260	N/A	WIA Statewide Activities Performance Incentives	Michigan Dept. of Labor and Economic Growth	07/01/04-06/30/05	46,089	46,089
17.260	N/A	WIA Statewide Activities Regional Skills Alliance	Michigan Dept. of Labor and Economic Growth	10/01/04-09/30/05	20,254	8,218
17.260	N/A	WIA Statewide Activities Capacity Building	Michigan Dept. of Labor and Economic Growth	07/01/04-06/30/05	10,008	10,008
Subtotal 17.260 (includes subcontracted expenditures of \$458,828)						1,021,915
Subtotal WIA Cluster 17.258, 17.259 and 17.260						3,347,756

**Direct Federal Funds

See Independent Auditor's Report.

Northeast Michigan Consortium

Schedule A-4

Schedule of Expenditures of Federal Awards and Other Financial Assistance
Year Ended June 30, 2005

CFDA

Number	Grant Number	Program Name	Grantor Agency	Program Period	Program or Award Amount	Expenditures
ASSISTANCE PROGRAMS AS IDENTIFIED IN THE CATALOG OF FEDERAL DOMESTIC ASSISTANCE (Continued)						
17.261	N/A	H-1B Technical Skills Training Grant	U.S. Department of Labor Employment and Training	01/05/04-01/05/07	1,500,000	504,762
		Subtotal 17.261** (includes subcontracted expenditures of \$469,265)				504,762
17.UNK	N/A	Reed Act Service Center Op.	Michigan Dept. of Labor and Economic Growth	10/01/03-09/30/04	55,886	12,689
17.UNK	N/A	Reed Act Service Center Op.	Michigan Dept. of Labor and Economic Growth	10/01/04-09/30/05	55,610	36,923
17.UNK	N/A	Reed Act Work First	Michigan Dept. of Labor and Economic Growth	10/01/03-09/30/04	675,749	124,483
17.UNK	N/A	Reed Act Work First	Michigan Dept. of Labor and Economic Growth	10/01/04-09/30/05	199,007	199,007
		Subtotal 17.UNK (includes subcontracted expenditures of \$236,658)				373,102
Department of Health and Human Services						
93.558	N/A	Transportation to Work TANF	Michigan Dept. of Labor and Economic Growth	10/01/03-09/30/04	35,400	4,335
93.558	N/A	Transportation to Work TANF	Michigan Dept. of Labor and Economic Growth	10/01/04-09/30/05	7,563	464
93.558	N/A	Supportive Services TANF	Michigan Dept. of Labor and Economic Growth	10/01/03-08/31/04	20,500	4,341
93.558	N/A	Work First	Michigan Dept. of Labor and Economic Growth	10/01/03-09/30/04	303,555	106,963
93.558	N/A	Work First	Michigan Dept. of Labor and Economic Growth	10/01/04-09/30/05	704,959	413,763
		Subtotal 93.558 (includes subcontracted expenditures of \$49,797)				529,866
		Total Federal Programs				5,325,440

**Direct Federal Funds

See Independent Auditor's Report.

Northeast Michigan Consortium

Schedule A-5

Schedule of Expenditures of Federal Awards and Other Financial Assistance

Year Ended June 30, 2005

CFDA Number	Grant Number	Program Name	Grantor Agency	Program Period	Program or Award Amount	Expenditures
OTHER STATE AND LOCAL PROGRAMS						
N/A	085P00000028	Technical Assistance	Michigan Economic Development Corp.	10/01/03-09/30/04	32,500	7,404
N/A	085P00000028	Technical Assistance	Michigan Economic Development Corp.	10/01/04-09/30/05	40,000	30,665
N/A	N/A	GF/GP State Post WtW	Michigan Dept. of Labor and Economic Growth	01/24/04-09/30/04	52,192	52,192
N/A	N/A	Food Assistance Supportive Services	Michigan Dept. of Labor and Economic Growth	10/01/03-09/30/04	1,248	0
N/A	N/A	Food Assistance Supportive Services	Michigan Dept. of Labor and Economic Growth	10/01/04-09/30/05	1,661	535
N/A	N/A	Charles Stewart Mott Foundation	Michigan Dept. of Labor and Economic Growth	10/01/04-09/30/05	36,431	4,910
N/A	N/A	GF/GP State	Michigan Dept. of Labor and Economic Growth	10/01/04-09/30/05	177,119	177,119
Total Other State and Local Programs (includes subcontracted expenditures of \$154,991)						272,825
OTHER ACTIVITY						
N/A	N/A	In-kind expenses	N/A	07/01/04-06/30/05	N/A	349,340
N/A	N/A	Corporate	N/A	07/01/04-06/30/05	N/A	9,350
Total Other Activity						358,690
TOTAL						\$ 5,956,955

**Direct Federal Funds

Note to Schedule of Expenditures of Federal Awards and Other Financial Assistance

This schedule includes the federal grant activity of Northeast Michigan Consortium and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Board of Directors
Northeast Michigan Consortium
Onaway, Michigan

We have audited the financial statements of Northeast Michigan Consortium (a nonprofit organization) as of and for the year ended June 30, 2005, and have issued our report thereon dated September 29, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Northeast Michigan Consortium's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northeast Michigan Consortium's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wipfli LLP

Wipfli LLP

September 29, 2005
Madison, Wisconsin

Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance

Board of Directors
Northeast Michigan Consortium
Onaway, Michigan

Compliance

We have audited the compliance of Northeast Michigan Consortium (a nonprofit organization) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Northeast Michigan Consortium's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Northeast Michigan Consortium's management. Our responsibility is to express an opinion on Northeast Michigan Consortium's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Northeast Michigan Consortium's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Northeast Michigan Consortium's compliance with those requirements.

In our opinion, Northeast Michigan Consortium complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Northeast Michigan Consortium is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Northeast Michigan Consortium's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wipfli LLP

Wipfli LLP

September 29, 2005
Madison, Wisconsin

Northeast Michigan Consortium

Schedule of Findings and Questioned Costs

A. Summary of Auditor's Results

1. The auditor's report expresses an unqualified opinion on the financial statements of Northeast Michigan Consortium.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters.
3. No instances of noncompliance material to the financial statements of Northeast Michigan Consortium were disclosed during the audit.
4. No reportable conditions were disclosed during the audit of the major federal award programs as reported in the Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance.
5. The auditor's report on compliance for the major federal award programs for Northeast Michigan Consortium expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for Northeast Michigan Consortium.
7. The programs tested as major programs were:
 - U.S. Department of Labor, Workforce Investment Act, WIA Cluster Program, CFDA #17.258, #17.259, and #17.260.
 - H-1B Technical Skills, CFDA #17.261.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Northeast Michigan Consortium was determined to be a low-risk auditee.

B. Findings – Financial Statements Audit

None

C. Findings and Questioned Costs – Major Federal Award Programs Audit

Findings: None

Questioned Costs: None